경영학 석사 학위논문

CEO Reputation and Sensitivity to Perquisite Disclosure

최고경영자의 평판과 비금전적 특전 관련 공시 규율 변화에 대한 연구

2017 년 02 월

서울대학교 대학원

경영학과 경영학 전공

권 도 경

ABSTRACT

In this study, we examine the role of CEO reputation in determining the level of executive perquisites following an exogenous change in disclosure regulations. Specifically, we examine how top executives responded to the SEC disclosure rule amendments in 2006, requiring them to disclose larger amounts of the perquisites they receive. Our results indicate that reputable executives are more sensitive to the disclosure requirements of their perks. We also find that CEO tenure moderates the relationship in that reputable CEOs with longer tenure react more sensitively to the regulation change than those with shorter tenure.

Keywords: Regulatory Change, CEO Reputation, Perquisites, Executive Compensation

Student Number: 2014-20408

TABLE OF CONTENTS

1. INTRODUCTION

Corporate governance scholars have given substantial attention to the governance mechanisms of firms that serve to align executive remunerations to the interests of diverse stakeholders. Recent research on such monitoring mechanisms has been stretching boundaries beyond that of within-firm governance to include public monitoring mechanisms as well. Various actors including stakeholders, activists, institutional investors and the media have been shown to assert pressure on top executives of firms, mitigating self-serving behaviors of the executives when determining compensation schemes (Coombs and Gilley, 2005; Ertimur, Ferri and Muslu, 2009; Core, Guay and Larcker, 2008;). This research trend is in accordance with the societal changes of the past few decades, where discreet information of firms has become more transparent to the public over time. Consequently, reputation concerns that stem from a higher level of transparency are an inevitable factor that affects executives when determining the level and type of their compensation (Lewellen, Park and Ro, 1996; Laksmana, 2008). Despite increasing research on various causes of reputation concern and reputational threat, level of transparency has not yet been examined as a

determinant of executive remuneration (Fombrun and Shanley, 1990; McDonnell and King, 2013).

In this study, we utilize a natural experiment in the U.S. that induced a higher level of transparency on the amount and type of perquisites provided to and used by top executives. Prior to the regulation change, only particularly large perks such as corporate jet usages were subject to disclosure in financial statements, allowing firms to provide discreet benefits to their managers (Yermack, 2006; Grinstein, Weinbaum and Yehuda, 2008; Andrews, Linn and Yi, 2009). The SEC recognized the need for better transparency and proposed amendments to the previous rules in early 2006, to limit the use of such covert provisions (SEC Release 33-8655; Grinstein, Weinbaum and Yehuda, 2008). This experiment provides an exogenous source of variation, allowing for investigation of causal mechanisms that further explain the subsequent consequences of such regulatory changes.

Different types of executive compensation have garnered attention from the public but the media has been particularly critical about the extravagant perks executives receive from their firms (Fortune, 2015;

Bloomberg, 204; WFJ, 2014). Six-figure spending on luxury jets and security, exclusive country-club memberships and several hundred dollars used on medical exams have been chronicled by the media as greedy and outrageous (Washington Post, 2010; Forbes, 2012). Accordingly, we propose that greater disclosure of these benefits will provide a source of reputational concern to top executives. However, the salience of such issues may vary among executives (Bundy, Shropshire and Buchholtz, 2013; Mitchell, Agle and Wood, 1997; Thomas, Clark and Gioia, 1993). We argue that executives with higher public concern will be more sensitive towards this change and respond accordingly by decreasing the amount and aligning it with prior performance. We additionally investigate the moderating effect that executive tenure has on the relationship between reputation and change in level of perks.

Using a difference-in-differences approach we find that executives with high reputation decreased their level of perquisites more than less reputable executives in the face of the regulatory changes. We also found that the causal effect between executive reputation and change in level of perquisites was stronger for those with longer tenure as CEO. As a whole,

our results provide evidence suggesting that those with higher public concern respond more sensitively to issues that may be a cause of reputation concern.

2. THEORY AND HYPOTHESES

2.1. Disclosure of Perquisites and Reputation Concern

Perquisites are an in-kind privilege provided to executives that include a variety of goods and services such as the use of company aircraft, golf club memberships and financial consulting services (Jensen, 1986; Yermack, 2006). Perquisites differ from other pecuniary rewards in that they are exclusively provided to a limited number of managers in the organization and are also highly visible to other employees and external observers (Rajan and Wulf, 2006; Auriol and Renault, 2008). For this reason, they function as positional goods that reaffirm the status of executives and separate them from other employees (Rajan and Wulf, 2006; Yermack, 2006). Because of their high visibility to external constituents, they also convey the relative standing of the executive not only within but also

beyond the organization. Characterized as extravagant, lavish and grandiose, they attract attention from a wide range of audience including shareholders, activists and the media (Forbes, 2012; Andrews, Linn and Yi, 2009).

Researchers tend to suggest that the mere existence of such benefits signify a manifestation of agency problems. They deem it unnecessary excessive compensation (Jensen and Meckling, 1976; Yermack, 2006) and claim it to be an indicator of larger corporate malpractices as well as an abuse of power (Jensen, 1986; Bebchuk and Fried, 2006; Edgerton, 2012). Empirical studies have shown that firms with low investment opportunities and high free cash flow provide greater amounts of perquisites to their executives while weak corporate governance is also said to determine the amount and type of perquisites received (Jensen, 1986, Andrews, Linn and Yi, 2009). Edgerton (2012) in particular provides empirical evidence that PE ownership compared to public ownership reduces the use of corporate jets in firms.

Prior to 2006, the exact amount of perquisites received by the executives was relatively concealed. The SEC originally required firms to disclose the total value of perquisites only if it exceeded $50,000 and

required the itemizing of individual perks if it exceeded 25% of the total amount of perquisites. Acknowledging the need for more transparent reporting, the Securities and Exchange Commission (SEC) proposed amendments regarding such disclosure rule of executive perquisites at the beginning of 2006 (SEC Release 33-8655). The SEC proposed that $50,000 bar be lowered to $10,000 with identification of individual perks made mandatory. Perks greater than $25,000 or 10% of the total amount of perquisites were also required to be quantified individually (Grinstein, Weinbaum and Yehuda, 2011; Edgerton, 2012). After going through an amendment process the regulation became final as of August, 2006 and effective for proxy statements disclosed on or after December 15, 2006.

Non-disclosed benefits signify a suboptimal appropriation of corporate resources at the expense of the firm and shareholders (Jensen, 1986; Bebchuk and Fried, 2006). Firms and executives are said to make use of pay practices that make the total amount of executive compensation less obvious and perquisites were one way of doing so (Bebchuk and Fried, 2003). Managers look to avoid public criticism and gain social approval, including setting compensation in a way that invites less criticism (Kuhnen

and Niessen, 2012). Benefits that are grandiose and highly visible due to their symbolic nature may potentially jeopardize an executive's public standing (Kahneman and Tversky, 1979; Wade, Porac, Pollack and Graffin, 2006). As such, further disclosure of such benefits will provide a cause of reputation concern for executives.

2.2. Executive Reputation and Level of Public Concern

While the provision of perquisites is determined by a negotiation process between the board and the executive, the subsequent use of these perquisites are under the discretion of the executive (Yermack, 2006; Boivie, Lange, McDonald and Westphal, 2011). For executives, negotiating for and utilizing perquisites are a problem of optimization between maximizing personal benefits and suiting the level deemed appropriate by society. Consequently, the individual characteristics of the executive will affect the usage of such benefits. The reputation of an executive is particularly relevant in this context as it indicates the level of public concern that each individual executive holds.

Reputation is defined as a signal of quality and competence of executives determined by the collective evaluation of third-parties (Graffin, Pfarrer and Hill, 2012). As reputation is built through the collective opinions of the broader society, it entails higher visibility, higher performance expectations and higher bars for social approval among stakeholders (Rhee and Haunschild, 2006; Graffin, Bundy, Porac, Wade and Quinn, 2013). This motivates executives to pay more attention to the social appropriateness of their decisions, reinforcing self-monitoring behaviors of these executives (Snyder, 1974; Toegel, Anand and Kilduff, 2007; Graffin and Ward, 2010). Willing to generate positive responses from stakeholders, they will self-monitor their actions and behavior and align it with what deems most appropriate to the social cues (Tosi, Katz and Gomez-Mejia, 1997; Toegel, Anand and Kilduff, 2007). They will be more willing to downplay what can be portrayed as pursuance of self-interest than those who are less known to the public. In turn, higher levels of perquisite disclosure lead to higher responsiveness for reputable executives (Grinstein, Weinbaum and Yehuda, 2011). Thus, we propose the following hypothesis:

Hypothesis 1. Following stricter disclosure requirements, the magnitude of reduction in perquisites will be greater for CEOs with higher reputation.

While the mere existence of perquisites can be an indicator of corporate malpractice, the level of its divergence from firm performance may indicate a stronger case of self-serving behavior as this explicitly entails divergence from shareholder and stakeholder interest (Jensen and Murphy, 1990; Aggarwal and Samwick, 2003). High remuneration of an executive despite low firm performance indicates low alignment of executive incentives with the interest of the firm, which can ultimately be detrimental to the firm (Harford and Li, 2007, Boivie, Lange, McDonald and Westphal, 2011). It also signifies the potential existence of further opportunistic actions by the executive (Tosi, Jr and Gomez-Mejia, 1989; Jensen and Murphy, 1990). The costs of such actions are imposed on the stakeholders of the company and thus generate more controversy from the public (Bebchuk and Jackson, 2005; Grinstein, Weinbaum and Yehuda, 2011). Hence, there is a higher chance of perquisites becoming a

problematic and controversial issue to the public when they are decoupled from firm performance (Bebchuk and Jackson, 2005; Grinstein, Weinbaum and Yehuda, 2011). Executives with higher reputation would face greater need to justify the level of perquisites in the context of the firm performance and subsequently they will seek to align their perks with the prior performance that they showed (Bebchuk and Fried, 2003; Hayward, Rindova and Pollock, 2004; Finkelstein, Hambrick and Cannella, 2009). Hence, we propose an additional hypothesis regarding the effect of disclosure on reputable executives and the alignment of perquisites with firm performance.

Hypothesis 2. Following stricter disclosure requirements, the degree of alignment between perquisites and firm performance will be greater for CEOs with higher reputation.

2.3. CEO Tenure as a Moderator

The strength of the relationship between executive reputation and

change in level of perks will be dependent upon other individual characteristics of the executive. In particular, the tenure of the executive will influence the causal relationship between the two as an indicator of power and legitimacy. Both notions generate conflicting predictions on the direction of moderation.

Longer tenure of a CEO has frequently been associated with greater power as the CEO gains more knowledge of firm-specific resources and familiarity of the system. Longer tenure also indicates more opportunities to reconstruct the board with directors more favorable to the CEO. These factors ensure stronger influence over the board (Finkelstein and Hambrick, 1989; Hambrick and Fukutomi, 1991; Hill and Phan, 1991). As such, longer tenure provides the CEO with more autonomy over his actions, including negotiating for larger and more diverse types of perquisites. Consequently, greater power may signify less concern about external pressure as it indicates a higher probability of the board remaining favorable to the executive. However, it may also indicate accumulation of more controversial benefits hidden from the public eye (Singh and Harianto, 1989). These benefits may be subject to greater public backlash once

disclosed and accordingly executives may find greater need to decrease their perks.

Studies on tenure as an indicator of legitimacy also predict conflicting consequences. As CEOs accumulate more firm-specific knowledge relative to general resources and become more embedded in the firm, they may lose attractiveness in the labor market (Hambrick and Fukutomi, 1991; Hambrick and Finkelstein, 1995). Acknowledging their limited mobility, they may be more concerned of maintaining legitimacy in their current positions. On the other hand, short-tenured executives may be in greater need for social approval as they lack sufficient legitimacy, being untested by the firm and the market (Simsek, 2007). In this sense, short-tenured executives may feel more obliged to concur to external expectations rather than pursue their own interests and risk their reputation. Fredrickson, Hambrick and Baumrin (1988) particularly noted that newly appointed CEOs go through a period of vulnerability, during which they become cautious of reputational threats or actions that may be perceived as going against the interest of investors and stakeholders. Therefore we propose the following competing hypotheses:

Hypothesis 3a. Following stricter disclosure requirements, CEO tenure will positively moderate the relationship between the magnitude of reduction in perquisites and CEO reputation.

Hypothesis 3b. Following stricter disclosure requirements, CEO tenure will negatively moderate the relationship between the magnitude of reduction in perquisites and CEO reputation.

3. METHODS

3.1. Data and Sample

Our sample was selected from companies that were members of the Standard & Poor's (S&P) 500 at the end of 2003. To test our hypotheses, we gathered data for the six years beginning in 2003 and ending in 2007, which brackets the year of the regulation change. We end our sample in 2007

because the global financial crisis in 2008 would have brought about other environmental differences that may distort our model. We selected companies ending their fiscal years in December to avoid generating any sampling biases that may occur due to significant environmental changes in the non-overlapping periods of different fiscal years (Wade, Pollack, Porac and Graffin, 2006). Afterwards, we included only CEOs that stayed in the same company before and after the change of disclosure regulation. In other words, only those with data bracketing the year 2006 were included. We also exclude Energy Future Holdings (EFH Corp) from the sample as the amount includes equity awards that vested on or before the closing a Merger of the firm, resulting in an unusual jump of “All Other Compensation”. This reduced our sample to 260 CEOs.

3.2. Dependent Variable

The dependent variable in this study is the level of CEO perquisites. We gathered data on compensation from EXECUCOMP as well as company proxy statements. The disclosure rule modified the disclosure format for perquisites, where prior to the regulation perquisites were divided into the

two columns “other annual compensation” and “all other compensation”. After the year 2006 the two were merged under “all other compensation”. Following the procedures of Grinstein, Weinbaum and Yehuda (2011), we sum the “other annual compensation” and “all other compensation” amounts for the years prior to 2006. The advantage of this approach is that it allows us to compare the total value of perks under both rules, reducing the risk of neglecting any kind of perk. We use the natural log transformation of the amount of perquisites in the analyses.

3.3. Independent Variables

We use two different proxies for CEO reputation: visibility, measured as the amount of press coverage, and celebrity, measured by media certification. For the first measure we count the number of press articles citing each executive published during the sample years in newspapers covered by the Factiva (Milbourn, 2003; Rajgopal, Shevlin and Zamora, 2006). Following prior literature we select several prominent publications as our database, which include *The New York Times, Financial Times, The Wall*

Street Journal, Forbes, Bloomberg Businessweek, The Economist and The Washington Post (Malmendier and Tate, 2008; Hayward and Hambrick, 1997; Bednar, 2012; Kuhnen and Niessen, 2012). We assess the effects of visibility as a continuous variable, examining the effect of various degrees of reputation.

Certification data are collected from both *Institutional Investor's All-American Executive Team* survey as well as *Businessweek's Annual list of Best Managers* and *Best Entrepreneurs*. *Institutional Investor* surveys buy-side analysts, money managers and sell-side researchers across the U.S. to determine their list of best chief executive officers. *Business Week* surveys its writers and editors in New York and also its bureaus around the world to decide who makes the annual listing. We created a dichotomous variable with a value of 1 if the CEO has been certified in the year before the regulation change.

Prior research tested and showed both certification and press coverage of a particular year to have an effect on compensation in the subsequent year (Wade, Pollock, Porac and Graffin, 2006; Core, Guay and Larcker, 2008; Kuhnen and Niessen, 2012; Bednar, 2012). We use the

one-year lag of the proxies accordingly. *Institutional Investor*'s surveys are conducted in the year before the announcement year, which means the list by itself allows a natural lag. *Businessweek*'s survey is announced at the end of each focal year so we lag it by one year to examine a causal relationship.

To test hypotheses 2 and 3, we interact each of the variables to the main DD variable. To test hypothesis 2 we employ both ROE (return on equity) and ROA (return on assets) as our performance metrics. We report the results utilizing ROA as the performance metric but both measures show similar results. We standardize CEO tenure for better interpretation of the effects.

3.4. Control Variables

We controlled for firm size (measured as the logarithm of the number of employees), as it has been shown to influence CEO compensation. We conduct supplementary analyses using the logarithm of total assets as a proxy of company size as well. Firm performance, measured as both ROA and ROE, is controlled for as better performance will result in better

remuneration. We report ROA in our tables but we conduct supplementary analyses using ROE as well. We industry-adjust both performance measures by subtracting the average value of firms with the same two-digit SIC code. We also control for institutional ownership, defined as the percentage of outstanding shares held by institutional investors, as it has been suggested to constrain self-serving behavior of CEOs (Yermack, 2006; Boivie, Lange, McDonald and Westphal, 2011). Literature on CEO ownership, measured as the percentage of outstanding shares held by the CEO, has been divided. Some argue that it mitigates agency behavior of the CEO while others claim that it provides power to the CEO, allowing them to pursue self-interests at the expense of shareholders. Either way, it could influence the level of perks and thus we control for it. CEO duality, defined as whether the CEO is also the chairman during the fiscal year, is also suggested to provide power to the CEO. This will influence the chance of conducting any self-serving behavior including using perquisites. CEO total pay is controlled for because CEOs may be willing to trade other compensation for perks and vice versa. CEOs are said to become overconfident with age while younger CEOs hold greater concerns regarding reduced career opportunities

(Holmstrom, 1999; Yim, 2013; Serfling, 2014). Consequently, older CEOs may demand more perks while younger executives prefer to stay away from such controversial benefits. Perquisites packages may also be affected by whether the CEO is retiring from the position as there are one time perks awarded to the CEO for retirement. CEOs newly appointed may also be in a position to negotiate higher perks. We include dummy variables for these cases.

4. RESULTS

Table 1 provides the descriptive statistics of our key variables. Evidence of multicollinearity is absent from our analysis as the variance inflation factors (VIFs) ranged from 1.02 to 1.12 and the average VIF was also not significantly greater than 1 (O'Brien, 2007).

Table 2 shows the results of our regression analyses. We test our hypotheses using a difference-in-differences (DD) method to compare the perquisites for high reputation executives before and after the disclosure rule change to that of low reputation executives. This method is widely used in

research examining the influence of policy changes (Kacperczyk, 2009; Younge, Tong and Fleming, 2015). Following prior DD research we create a variable "*Post Disclosure*" and assign the value 1 for fiscal years 2006 and 2007. Amendments for the regulation were announced at the beginning of 2006 and as the regulations were targeted to become effective for perks used as of that year, the publicizing of such plans would have influenced the executives. Thus we believe both 2006 and 2007 are representative of the period the regulation change influenced the executives. We create interaction variables *Repu_Visibility* x *Post Disclosure* and *Repu_Celebrity* x *Post Disclosure* to identify the effect of the rule change on reputable executives. In essence, the difference-in-differences analysis subtracts the difference in perquisites for the comparable executives from the difference in perquisites for the reputable executives.

Table 2 presents the results of our regression analyses using both proxies for reputation separately. Model 1 represents the baseline model and includes the control variables. Model 2-4 use the DD variable of *Repu_Visibility* x *Disclosure* to test our hypotheses. Model 5-7 use *Repu_Celebrity* x *Post Disclosure* and test the same hypotheses.

Hypothesis 1 predicts that the higher CEO reputation the more negative the change in perquisites will be. The coefficients for both visibility and celebrity are negative and significant, consistent with our predicted relationship. This indicates that reputable executives are more likely to decrease their level of perquisites after the disclosure regulation change compared to the non-reputable executives. The significant coefficient for the continuous visibility measure shows that the higher the reputation of the executives the more they decrease their level of perquisites after the regulation change, supporting our hypothesis.

Hypothesis 2 posits that the higher CEO reputation the less their perks will diverge from firm performance. The results are not shown to be significant, which may indicate that performance is not a factor of consideration when determining the level of perquisites received and used.

Hypothesis 3a and 3b are competing hypotheses on the moderation effect of CEO tenure on the relationship between reputation and perquisites The regression results proved negative and significant for all proxies, indicating that the longer the tenure among the reputable executives, the more they decreased their level of perquisites after the disclosure.

TABLE 1. Pearson Correlations of Key Variables

Variable	1	2	3	4	5	6	7	8	9	10	11	12
Perks												
Repu _Visibility	0.15***											
Repu _Celebrity	0.11***	0.21***										
Firm Size	0.26***	0.26***	0.19***									
Firm Performance	0.04	-0.02	0.04	0.02								
Institutional ownership	0.01	-0.12***	-0.02	-0.12***	-0.10**							
CEO ownership	-0.08*	0.25***	-0.08*	-0.05	-0.01	-0.06*						
CEO duality	0.00	0.02	-0.01	0.04	-0.04	-0.02	-0.05					
CEO total pay	0.41***	0.23***	0.21***	0.28***	0.083**	-0.01	-0.07*	-0.02				
CEO age	0.13***	0.09**	0.05	0.06*	-0.05	-0.04	0.09**	0.13***	0.11***			
New CEO	-0.05	-0.00	-0.08**	-0.07*	-0.04	-0.03	-0.06*	0.03	-0.05	-0.10**		
Retire CEO	0.16***	0.05	0.04	0.023	0.00	-0.00	0.03	-0.14***	0.05	0.08**	-0.04	
CEO tenure	0.03	-0.13***	0.10**	-0.03	0.06	0.04	0.17***	-0.08	0.12***	0.34***	-0.28***	0.11***

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2-1. Fixed-effects Regression Results

Variable	Model 1	Model 2	Model 3
Firm Size	-0.58*	-0.64**	-0.64**
	(-2.45)	(-2.68)	(-2.69)
Firm Performance	-0.00	-0.01	-0.01+
	(-1.31)	(-1.56)	(-1.68)
Institutional Ownership	1.26***	1.06**	1.05**
	(3.36)	(2.80)	(2.77)
CEO Ownership	0.04	0.02	0.02
	(0.53)	(0.28)	(0.28)
CEO Duality	0.02	0.18	0.18
	(0.08)	(0.74)	(0.72)
CEO Total Pay	0.17**	0.13*	0.14*
	(2.98)	(2.38)	(2.40)
CEO Age	0.04**	0.02+	0.02+
	(3.13)	(1.68)	(1.68)
New CEO	-0.14	-0.06	-0.05
	(-1.26)	(-0.53)	(-0.44)
Retire CEO	1.42***	1.37***	1.37***
	(8.60)	(8.26)	(8.25)
Post Disclosure		0.17**	0.17**
		(2.72)	(2.61)
Post Disclosure x Repu_Visibility		-0.14**	-0.12*
		(-3.07)	(-2.43)
Post Disclosure x Prior Performance			0.00
			(0.28)
Repu_Visibility x Prior Performance			0.00
			(0.59)
Post Disclosure x Repu_Visibility x Prior Performance			-0.01
			(-0.49)
_cons	0.62	1.65*	1.64*
	(0.88)	(2.12)	(2.10)
Observations	1,007	1,007	1,007
Adjusted R-squared	0.76	0.76	0.76

t-statistics in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.10

TABLE 2-2. Fixed-effects Regression Results

Variable	Model 4	Model 5	Model 6	Model 7
Firm Size	-0.67**	-0.62**	-0.62**	-0.78**
	(-2.81)	(-2.59)	(-2.59)	(-3.25)
Firm Performance	-0.01+	-0.00	-0.01+	-0.00
	(-1.73)	(-1.46)	(-1.84)	(-1.15)
Institutional Ownership	0.68+	1.07**	1.08**	0.65
	(1.69)	(2.81)	(2.82)	(1.61)
CEO Ownership	0.01	0.02	0.02	0.01
	(0.13)	(0.26)	(0.26)	(0.11)
CEO Duality	0.37	0.15	0.15	0.30
	(1.49)	(0.60)	(0.59)	(1.22)
CEO Total Pay	0.13*	0.13*	0.14*	0.13*
	(2.40)	(2.37)	(2.39)	(2.21)
CEO Age	0.01	0.02+	0.02+	0.01
	(0.91)	(1.79)	(1.78)	(1.08)
New CEO	-0.16	-0.04	-0.03	-0.20+
	(-1.32)	(-0.32)	(-0.22)	(-1.67)
Retire CEO	1.38***	1.35***	1.35***	1.33***
	(8.32)	(8.11)	(8.04)	(8.01)
Post Disclosure	-0.11	0.21**	0.20**	-0.19
	(-1.04)	(3.14)	(3.01)	(-1.58)
Post Disclosure x Repu_Visibility	0.13			
	(1.31)			
Post Disclosure x Prior Performance			0.00	
			(0.11)	
CEO Tenure	0.08*			0.06
	(2.47)			(1.56)
Post Disclosure x CEO Tenure	0.01			0.04***
	(0.83)			(3.96)
Repu_Visibility x CEO Tenure	0.01			
	(0.28)			
Post Disclosure x Repu_Visibility	-0.08***			
x CEO Tenure	(-3.52)			
Post Disclosure x Repu_Celebrity		-0.21+	-0.17	-0.05
		(-1.74)	(-1.29)	(-0.18)
Repu_Celebrity x Prior Performance			0.01	
			(1.17)	
Post Disclosure x Repu_Celebrity			-0.02	
x Prior Performance			(-0.38)	
Repu_Celebrity x CEO Tenure				0.09
				(1.25)
Post Disclosure x Repu_Celebrity				-0.06*
x CEO Tenure				(-2.16)
_cons	1.89*	1.59*	1.58*	1.95*
	(2.40)	(2.03)	(2.01)	(2.46)
Observations	1,007	1,007	1,007	1,007
Adjusted R-squared	0.77	0.76	0.76	0.77

t-statistics in parentheses, *** p<0.001, ** p<0.01, * p<0.05, + p<0.10

5. DISCUSSION AND CONCLUSION

Organizational scholars have long examined how various societal actors act as channels of institutional pressures that influence the governance practices of organizations (Wade, Porac and Pollock, 1997; Johnson, Ellstrand, Dalton and Dalton, 2005; Bednar, 2012). Our objective is to examine whether reputation plays a governing role for CEOs in the context of disclosure and how individual level characteristics also determine the relationship between reputation and sensitivity to reputation concerns.

Our empirical findings support our theoretical suggestions. A higher level of reputation was associated a higher level of decrease after the regulation change. While alignment with performance did not prove to be significant, this is in line with the findings of prior literature that perks are not coupled with performance. Our findings support the fact that there are more relevant socio-political determinants of perks even after better transparency towards such benefits. One interesting finding was the directionality of CEO tenure. Our empirical results found strong significance for CEOs with longer tenure being more sensitive towards regulation changes than those with shorter tenure. This may be because of the power argument where executives with longer tenure were hiding more benefits prior to the regulation change and decreased the amount to avoid public backlash. It may also be because executives who have been at the firm for a long time have less mobility in the labor market and thus are more sensitive towards keeping a better status of legitimacy. One path for future research would be to more fully examine these different mechanisms of executive tenure.

This research contributes to different strands of the literature. First, it contributes to the literature of corporate governance by examining the effect of regulatory change as an additional monitoring mechanism. This adds to

the increasing literature on external monitoring mechanisms regarding corporate governance. Second, it contributes to the literature on reputation by utilizing the variable as an indicator of public concern as opposed to an indicator of capability. While previous research defines reputation as a third-party signal of capability, we propose that it can also be an indicator of public concern and have different consequences on individual and firm-level outcomes. Finally, it also adds to the literature on compensation by examining the determinants of perquisites at the CEO level, separate from total and pecuniary compensation. We hope that the findings from our study will serve as an impetus to examine the important linkage between managerial reputation and perquisites --- an important component of executive compensation, yet largely overlooked in the literature.

REFERENCES

Aggarwal, R.K. and Samwick, A.A., 2003. Why do managers diversify their firms? Agency reconsidered. *The Journal of Finance, 58*(1), pp.71-118.

Andrews, A.B., Linn, S.C. and Yi, H., 2009, March. Corporate governance and executive perquisites: evidence from the new SEC disclosure rules. AAA.

Barnett, M.L. and Pollock, T.G. eds., 2012. The Oxford handbook of corporate reputation. *OUP Oxford*.

Bebchuk, L.A. and Fried, J.M., 2003. Executive compensation as an agency problem (No. w9813). *National Bureau of Economic Research*.

Bebchuk, L.A. and Fried, J.M., 2005. Pay without performance: Overview of the issues. *Journal of applied corporate finance, 17*(4), pp.8-23.

Bebchuk, L.A. and Fried, J.M., 2006. Pay without Performance Overview of the issues. *The Academy of Management Perspectives, 20*(1), pp.5-24.

Bebchuk, L.A. and Jackson Jr, R.J., 2005. Executive pensions (No. w11907). *National Bureau of Economic Research*.

Bednar, M.K., 2012. Watchdog or lapdog? A behavioral view of the media as a corporate governance mechanism. *Academy of Management Journal, 55*(1), pp.131-150.

Boivie, S., Lange, D., McDonald, M.L. and Westphal, J.D., 2011. Me or we: The effects of CEO organizational identification on agency costs. *Academy of Management Journal, 54*(3), pp.551-576.

Bundy, J., Shropshire, C. and Buchholtz, A.K., 2013. Strategic cognition and issue salience: Toward an explanation of firm responsiveness to stakeholder concerns. *Academy of Management Review*, 38(3), pp.352-376.

Chatterjee, A. and Hambrick, D.C., 2011. Executive Personality, Capability Cues, and Risk Taking How Narcissistic CEOs React to Their Successes and Stumbles. *Administrative Science Quarterly, 56*(2), pp.202-237.

Combs, J.G. and Skill, M.S., 2003. Managerialist and human capital explanations for key executive pay premiums: A contingency perspective. *Academy of Management Journal, 46*(1), pp.63-73.

Core, J.E., Guay, W. and Larcker, D.F., 2008. The power of the pen and executive compensation. *Journal of Financial Economics, 88*(1), pp.1-25.

Dyck, A., Volchkova, N. and Zingales, L., 2008. The corporate governance role of the media: Evidence from Russia. *The Journal of Finance, 63*(3), pp.1093-1135.

Edgerton, J., 2012. Agency problems in public firms: Evidence from

corporate jets in leveraged buyouts. *The Journal of Finance, 67*(6), pp.2187-2213.

Ertimur, Y., Ferri, F., & Muslu, V. 2010. Shareholder activism and CEO pay. *Review of Financial Studies*, hhq113.

Finkelstein, S. and Hambrick, D.C., 1989. Chief executive compensation: A study of the intersection of markets and political processes. *Strategic Management Journal, 10*(2), pp.121-134.

Finkelstein, S., Hambrick, D.C. and Cannella, A.A., 2009. Strategic leadership: Theory and research on executives, top management teams, and boards. *Oxford University Press, USA*.

Fredrickson, J.W., Hambrick, D.C. and Baumrin, S., 1988. A model of CEO dismissal. *Academy of Management Review, 13*(2), pp.255-270.

Graffin, S.D., Bundy, J., Porac, J.F., Wade, J.B. and Quinn, D.P., 2013. Falls from Grace and the Hazards of High Status The 2009 British MP Expense Scandal and Its Impact on Parliamentary Elites. *Administrative Science Quarterly, 58*(3), pp.313-345.

Graffin, S., Pfarrer, M. and Hill, M., 2012. Executive reputation: Reviewing and developing a nascent construct. The Oxford Handbook of Corporate Reputation. Oxford: *Oxford University Press*, xx--xx.

Graffin, S.D. and Ward, A.J., 2010. Certifications and reputation: Determining the standard of desirability amidst uncertainty. *Organization Science, 21*(2), pp.331-346.

Grinstein, Y., Weinbaum, D. and Yehuda, N., 2011. The economic consequences of perk disclosure. Unpublished working paper. Cornell University and Syracuse University.

Hambrick, D.C. and Fukutomi, G.D., 1991. The seasons of a CEO's tenure. *Academy of management review, 16*(4), pp.719-742.

Harford, J. and Li, K., 2007. Decoupling CEO wealth and firm performance: The case of acquiring CEOs. *The Journal of Finance, 62*(2), pp.917-949.

Hayward, M.L. and Hambrick, D.C., 1997. Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. *Administrative Science Quarterly*, pp.103-127.

Hayward, M.L., Rindova, V.P. and Pollock, T.G., 2004. Believing one's own press: The causes and consequences of CEO celebrity. *Strategic Management Journal, 25*(7), pp.637-653.

Hill, C.W. and Phan, P., 1991. CEO tenure as a determinant of CEO pay. *Academy of Management journal, 34*(3), pp.707-717.

Holmström, B., 1999. Managerial incentive problems: A dynamic perspective. *The Review of Economic Studies, 66*(1), pp.169-182.

Jensen, M.C., 1986. Agency cost of free cash flow, corporate finance, and takeovers. Corporate Finance, and Takeovers. *American Economic Review, 76*(2).

Jensen, M.C. and Meckling, W.H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*(4), pp.305-360.

Jensen, M.C. and Murphy, K.J., 1990. Performance pay and top-management incentives. *Journal of political economy*, pp.225-264.

Johnson, J.L., Ellstrand, A.E., Dalton, D.R. and Dalton, C.M., 2005. The influence of the financial press on stockholder wealth: The case of corporate governance. *Strategic Management Journal*, *26*(5), pp.461-471.

Kacperczyk, A., 2009. With greater power comes greater responsibility? Takeover protection and corporate attention to stakeholders. *Strategic Management Journal*, *30*(3), pp.261-285.

Kahneman, D. and Tversky, A., 1979. Prospect theory: An analysis of decision under risk. Econometrica: *Journal of the Econometric Society*, pp.263-291.

Kuhnen, C.M. and Niessen, A., 2012. Public opinion and executive compensation. *Management Science*, *58*(7), pp.1249-1272.

Laksmana, I., 2008. Corporate board governance and voluntary disclosure of executive compensation practices. *Contemporary Accounting Research*, *25*(4), pp.1147-1182.

Lewellen, W.G., Park, T. and Ro, B.T., 1996. Self-serving behavior in managers' discretionary information disclosure decisions. *Journal of Accounting and Economics*, *21*(2), pp.227-251.

Malmendier, U. and Tate, G., 2008. Who makes acquisitions? CEO overconfidence and the market's reaction. *Journal of financial Economics*,*89*(1), pp.20-43.

Merton, R.K., 1968. The Matthew effect in science. *Science*, *159*(3810), pp.56-63.

Mitchell, R.K., Agle, B.R. and Wood, D.J., 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management review*, *22*(4), pp.853-886.

Rajan, R.G. and Wulf, J., 2006. Are perks purely managerial excess?. *Journal of financial economics*, *79*(1), pp.1-33.

Reeb, D., Sakakibara, M. and Mahmood, I.P., 2012. From the editors: Endogeneity in international business research. *Journal of International Business Studies*, *43*(3), pp.211-218.

Rhee, M. and Haunschild, P.R., 2006. The liability of good reputation: A study of product recalls in the US automobile industry. *Organization Science*, *17(1)*, pp.101-117.

Serfling, M.A., 2014. CEO age and the riskiness of corporate policies. *Journal of Corporate Finance*, *25*, pp.251-273.

Simsek, Z., 2007. CEO tenure and organizational performance: an intervening model. *Strategic Management Journal, 28*(6), pp.653-662.

Singh, H. and Harianto, F., 1989. Top management tenure, corporate ownership structure and the magnitude of golden parachutes. *Strategic Management Journal, 10(S1)*, pp.143-156.

Snyder, M., 1974. Self-monitoring of expressive behavior. *Journal of personality and social psychology, 30*(4), p.526.

Thomas, J.B., Clark, S.M. and Gioia, D.A., 1993. Strategic sensemaking and organizational performance: Linkages among scanning, interpretation, action, and outcomes. *Academy of Management journal, 36*(2), pp.239-270.

Toegel, G., Anand, N. and Kilduff, M., 2007. Emotion helpers: The role of high positive affectivity and high self-monitoring managers. *Personnel Psychology, 60(2),* pp.337-365.

Tosi, H.L., Katz, J.P. and Gomez-Mejia, L.R., 1997. Disaggregating the agency contract: The effects of monitoring, incentive alignment, and term in office on agent decision making. *Academy of Management Journal, 40(3),* pp.584-602.

Tosi Jr, H.L. and Gomez-Mejia, L.R., 1989. The decoupling of CEO pay and performance: An agency theory perspective. *Administrative Science Quarterly,* pp.169-189.

Wade, J.B., Porac, J.F. and Pollock, T.G., 1997. Worth, words, and the justification of executive pay. *Journal of Organizational Behavior, 18(s 1),* pp.641-664.

Wade, J.B., Porac, J.F., Pollock, T.G. and Graffin, S.D., 2006. The burden of celebrity: The impact of CEO certification contests on CEO pay and performance. *Academy of Management Journal, 49(4),* pp.643-660.

Yermack, D., 2006. Flights of fancy: Corporate jets, CEO perquisites, and inferior shareholder returns. *Journal of Financial Economics, 80(1)*, pp.211-242.

Yim, S., 2013. The acquisitiveness of youth: CEO age and acquisition behavior. *Journal of financial economics, 108(1)*, pp.250-273.

Younge, K.A., Tong, T.W. and Fleming, L., 2015. How anticipated employee mobility affects acquisition likelihood: Evidence from a natural experiment. *Strategic Management Journal, 36(5)*, pp.686-708.

.

국 문 초 록

최고경영자의 평판과 비금전적 특전 관련

공시 규율 변화에 대한 연구

본 논문은 기업 최고경영진의 비금전적 특전과 관련된 공시 규율이 개정된 이후 최고경영자들의 특전 수준이 변화된 양상을 최고경영자들의 평판을 중점으로 연구하였다. 2006 년 미국증권거래위원회에서 증권거래소법에 대한 개정안을 발의하고 채택함에 따라 최고경영자들이 받는 비금전적 특전에 대한 공시 의무가 강화되었다. 본 개정안이 발의된 이후 나타난 260 명 최고경영자들의 특전 수준 변화를 분석한 결과, 평판이 높은 최고경영자일수록 규율 변화에 민감하게 반응한다는 점을 발견할 수 있었다. 또한, 재직기간이 긴 최고경영자일수록 앞서 언급한 경영자의 평판과 규율 개정에 따른 특전 수준 변화간의 상관관계가 심화됨을 알 수 있었다.

주요어: 규율 변화, 최고경영자의 평판, 비금전적 특전, 최고경영자의 보수

학번: 2014-20408